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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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JUL - 6 2010

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ARIZONA CORP COMMISSION  
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IN THE MATTER OF THE NOTICE OF  
PROPOSED RULEMAKING REGARDING  
ELECTRIC ENERGY EFFICIENCY RULES

) DOCKET NO. RE-00000C-09-0427

) **EXCEPTIONS OF TUCSON**  
) **ELECTRIC POWER COMPANY**  
) **AND UNS ELECTRIC, INC.**

Tucson Electric Power Company ("TEP"), and UNS Electric, Inc. ("UNS Electric") (collectively the "Companies"), through undersigned counsel, hereby file exceptions to the Recommended Opinion and Order ("ROO") and related Electric Energy Efficiency Rules ("EEE Rules"), containing the proposed Electric Energy Efficiency Standards ("EEE Standards") for the State of Arizona.

**I. INTRODUCTION.**

The EEE Rules propose a regulatory framework whereby utilities will be required to reduce their energy sales through customer-oriented programs. The cost of the programs will be recovered through a surcharge imposed upon customers. The EEE Rules are the latest in a series of Commission-ordered rules that are intended to change the way (i) utilities provide electric service and (ii) customers consume electricity.

The Companies support the principle of energy efficiency. In order for energy efficiency rules to be effective, they must be realistic regarding standards, programs and results. They must provide the customer a meaningful way to control energy usage and the utility a way to promote energy efficiency without jeopardizing its quality of service or financial condition.

The Companies' participation in this docket has focused on EEE Rules that would provide an effective framework to reduce the need for additional generation and transmission in a

1 way that benefits customers and utilities, who must work together to achieve the desired  
2 results. However, the EEE Rules still contain flaws.

3 **II. SPECIFIC EXCEPTIONS.**

4 **First**, R14-2-2404 (A) and (B) of the EEE Rules set forth the EEE Standard and the ramp-  
5 up schedules. The Companies believe the 22% cumulative savings and the resulting ramp-up  
6 schedule are not feasible. The record does not support a 22% standard from the perspective of  
7 either technical feasibility or cost effectiveness. However, the record does support that the initial  
8 EEE Standard be adopted for a five-year period, reaching a 10% cumulative savings over that time  
9 frame. The Commission can then adjust the EEE Standard as appropriate based on achieved  
10 results and actual experience.

11 **Second**, the EEE Rules do not currently provide a sufficient mechanism under which  
12 utilities will be compensated for the lost revenue that occurs when volumetric sales decline due to  
13 energy efficiency measures. The EEE Rules should align the interests of the utility and its  
14 customers by providing a mechanism to address this issue. Other states have adopted revenue  
15 decoupling and/or lost revenue adjustments as part of state-wide EEE standards.

16 In prior comments in this docket, the Companies have proposed a straightforward fixed  
17 cost recovery deficiency mechanism that would operate in between a utility's rate cases. The  
18 Companies request that R14-2-2410.I of the EEE Rules be amended to state as follows:

19 An affected utility shall file within 90 days of approval of this  
20 standard a Fixed Cost Recovery Rate supporting the per kWh cost  
21 recovery shortfall created by reduced kWh sales due to DSM/EEE  
22 programs. This Fixed Cost Recovery Rate will be equal to the non-  
23 fuel-related variable rate approved by the Commission in the  
24 Utility's most recent rate case. The Fixed Cost Recovery  
25 Deficiency calculation shall multiply the Fixed Cost Recovery  
26 Rate by the cumulative kWh sales reductions due to DSM/EEE  
27 since the Utility's last rate case. Both the Fixed Cost Recovery

1 Rate and the cumulative DSM/EEE sales reductions shall be reset  
2 coincident with the effective date of applicable changes to the  
3 Utility's rates. The affected utility shall recover the Fixed Cost  
4 Recovery Deficiency through the annual true-up of the affected  
5 utility's DSM adjustor mechanism.


6 Without such a mechanism, the EEE Standard is incomplete and will place an undue financial  
7 burden upon utilities. The Companies will be financially harmed if they are required to reduce  
8 sales without a mechanism in place that provide for cost recovery and a reasonable opportunity to  
9 earn a return on their investments.

10 **III. CONCLUSION.**

11 The Companies support the Commission's efforts to promote EEE through programs that  
12 produce the desired results in a manner that will not harm the Companies or their customers. The  
13 Companies believe their proposed revisions will result in effective EEE programs that provide  
14 utilities the ability to recover their costs, including an opportunity to earn a reasonable rate of  
15 return on their investments, while still ensuring just and reasonable rates for the Companies'  
16 customers. The Companies believe that this approach will strengthen the long-term viability of  
17 the EEE rules and is in the public interest.

18 RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of July 2010.

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20 UNS Electric, Inc.

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7 Original and 13 copies of the foregoing  
8 filed this 6<sup>th</sup> day of July 2010 with:

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13 Copy of the foregoing hand-delivered/mailed  
14 this 6<sup>th</sup> day of July 2010 to:

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